MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BFN2224 – FINANCIAL MARKETS AND INSTITUTIONS

(All sections / Groups)

15th October 2016
2.30 p.m – 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Questions paper consists of 2 pages with 4 Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

The most important functional areas of Bank Negara Malaysia (BNM) are regulation and monetary policy.

a) Discuss how the monetary policy and regulation promote the financial stability of the country.
(13 marks)

b) Discuss **THREE (3)** advantages and disadvantages of inflation targeting as a strategy for the conduct of monetary policy.
(12 marks)

(Total: 25 marks)

QUESTION 2

a) Differentiate between Treasury bond, corporate bond and municipal bond.
(12 marks)

b) Briefly discuss the shifts in demand for bonds based on the following scenarios:

i) An increase and decrease in wealth.
(5 marks)

ii) Increase in the riskiness of bonds against increase in the riskiness of alternative assets.
(4 marks)

iii) Increase in liquidity of bonds against increase in the riskiness of alternative assets.
(4 marks)

(Total: 25 marks)

QUESTION 3

a) Discuss how adverse selection and moral hazard affect the insurance market. Provide examples to support your argument.
(8 marks)

b) Explain **TWO (2)** pro-active ways taken by insurance industry to handle the adverse selection and moral hazard issues.
(7 marks)

c) You pay RM996.37 for a 28-day T-bill. It is worth RM1,000 at maturity.

i) What is its discount rate?
(5 marks)

ii) What is its annualized yield?
(5 marks)

(Total: 25 marks)

Continued...

QUESTION 4

a) Briefly explain the differences between Index Fund and Hedge Fund. **(13 marks)**

b) The shares of Portobollo, Inc. are expected to generate the following possible returns over the next 12 months:

Return	Probability
−5%	0.10
5%	0.25
10%	0.30
15%	0.25
25%	0.10

If the stock is currently trading at RM25/share, what is the expected price in one year. Assume that the stock pays no dividends. **(6 marks)**

c) Mango Berhad is selling at RM22.00 per share. The most recent annual dividend paid was RM0.80. Using the Gordon Growth model, if the market requires a return of 11%, what is the expected dividend growth rate for Mango Berhad? **(6 marks)**

(Total: 25 marks)

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